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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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MAY 05 2005

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AZ Corporation Commission
Director Of Utilities

IN THE MATTER OF THE APPLICATION OF
TIME WARNER TELECOM OF ARIZONA, LLC,
FOR AUTHORIZATION TO GUARANTEE DEBT
OF A PARENT CORPORATION.

DOCKET NO. T-03943A-05-0070

DECISION NO. 67815

ORDER

Open Meeting
May 3, 2005
Phoenix, Arizona

BY THE COMMISSION:

On February 3, 2005, Time Warner Telecom of Arizona, LLC ("TWTA" or "Applicant") filed an application with the Arizona Corporation Commission ("Commission") requesting expedited approval of the guarantee of certain obligations undertaken by its affiliated entity, Time Warner Telecom Holdings, Inc. ("TWT Holdings").

On April 18, 2005, the Commission's Utilities Division Staff ("Staff") filed a Staff Report recommending approval of the application.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. TWTA is a limited liability company organized and existing under the laws of the state of Delaware and is a subsidiary of TWT Holdings, which is in turn a wholly-owned subsidiary of Time Warner Telecom Inc. ("Time Warner").

2. On February 3, 2005, TWTA filed an application with the Commission requesting expedited approval of the guarantee of certain obligations undertaken by its affiliated entity, TWT Holdings.

3. On March 2, 2005, TWTA docketed a letter indicating that the reason for the request for expedited approval was that the Indenture for the New Notes requires TWTA Holdings to file a Supplemental Indenture by May 10, 2005, which will add TWTA (and other subsidiaries in other states) as guarantors of the New Notes. Therefore, TWTA seeks expedited approval so that it can file the required Registration Statement with the SEC in time to avoid incurring penalty interest on the New Notes.

4. In Decision No. 63262 (December 14, 2000), the Commission granted the Joint Application of TWTA and GST-AZ Net (AZ), Inc. for the transfer of assets and Certificate of Convenience and Necessity ("CC&N") from GST-AZ to TWTA. TWTA received the CC&N with authority to provide "competitive local exchange and interexchange telecommunications services in Arizona".

5. TWTA operates in Arizona with 38 employees serving approximately 350 commercial and governmental accounts.

6. In Decision No. 67108 (July 9, 2004), the Commission authorized TWTA to encumber assets and guarantee obligations of TWT Holdings in connection with a financing undertaken by TWT Holdings. As a condition of that approval, the Commission required that TWTA obtain a performance bond in the amount of \$1.7 million.¹

7. By its application in this proceeding, Applicant seeks authority to guarantee the debt of TWT Holdings in an amount up to and including \$400,000,000 of 9.25 percent Senior Notes. These 2005 Notes will be due in 2014 and are an additional issuance of TWT Holdings' 9.25 percent 2004 Senior Notes authorized in Decision No. 67108. The 2005 Notes will have the same terms as the 2004 Notes and will be treated as the same class as the 2004 Notes. The proceeds will be used to redeem all or a portion of TWT Holdings' 9.75 percent Senior Notes, which are due in 2008.

8. TWTA states in its application that it seeks approval of the guarantee pursuant to A.A.C. R14-2-804, and that it will not impair the financial status of TWTA, otherwise prevent TWTA from attracting capital at fair and reasonable terms, or impair the ability of TWTA to provide

¹ TWTA filed proof of the performance bond on September 7, 2004. On December 14, 2004, TWTA filed an application for a reduction of performance bond (Docket No. T-03943A-04-0909) and that application is pending before the Commission.

1 safe, reasonable, and adequate service.

2 9. TWTA also states that approval of the application is in the public interest because it
3 will enable TWT Holdings to obtain additional financing and working capital, and the extension of
4 the maturities and reduction in interest expense will result in better financial conditions for TWT
5 Holdings and TWTA. In its application, TWTA also states that the requested authority will
6 strengthen TWTA's ability to compete in the local exchange market in Arizona by providing access
7 to greater financial resources. TWTA states that these resources and the flexibility provided by the
8 financing will allow TWTA to respond to competitive pressures and to continue to provide
9 consumers with full facilities-based competitive choice.

10 10. The Staff Report states that the purpose of the TWT Holdings financing is to re-issue
11 existing Senior Notes to extend the maturity from 2008 to 2014, at an interest savings of 0.50 percent.
12 According to Staff, the projected change in the interest rate as filed amounts to an interest savings of
13 \$2 million per each year the Senior Notes are outstanding. Although Staff did not perform a financial
14 analysis of the state operating subsidiary, Staff determined that Time Warner's debt service coverage
15 ratio ("DSC") will improve from 1.72 to 1.75. Time Warner's capital structure will not change as a
16 result of the re-issuance, and it will remain a highly leveraged entity with 77.2 percent debt. Staff
17 states that concern over Time Warner's leverage is mitigated by the availability of alternative
18 providers for service for TWTA's customers.

19 11. Staff concluded that the guarantee is within the corporate powers of TWTA,
20 compatible with the public interest, and will not impair its ability to perform service.

21 12. Staff recommended that the application be approved under A.A.C. R14-2-804(B) and
22 that TWTA be authorized to guarantee the debt of TWT Holdings of \$400,000,000 on the terms and
23 conditions set forth in the application. Staff further recommended that TWTA be authorized to grant
24 liens in favor of the lender as required to secure the borrowings authorized, and that TWTA be
25 authorized to engage in any transaction and to execute any documents necessary to effectuate the
26 authorizations granted.

27 13. The proposed guarantee will enable TWT Holdings to obtain additional financing and
28 working capital, and the extension of the maturities and reduction in interest expense will help

1 TWTA to continue to offer competitive services in Arizona. Although TWTA's ultimate parent,
2 Time Warner, is highly leveraged, that concern is mitigated by the availability of alternative
3 providers to TWTA's Arizona customers, and by maintenance of a performance bond as set forth in
4 Decision No. 67108. The performance bond shall not be reduced or eliminated unless otherwise
5 ordered by the Commission.

6 14. Staff's recommendations set forth in Findings of Fact No. 12 are reasonable and
7 should be adopted.

8 CONCLUSIONS OF LAW

9 1. TWTA is a public service corporation within the meaning of Article XV of the
10 Arizona Constitution, A.R.S. §§ 40-285 and 40-301, and A.A.C. R14-2-804.

11 2. The Commission has jurisdiction over TWTA and the subject matter of the
12 application.

13 3. Authorization of TWTA's guarantee in support of TWT Holdings' note re-issuance is
14 compatible with the public interest.

15 4. The guarantee authority approved herein will not impair the financial status of the
16 public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the
17 ability of the public utility to provide safe, reasonable and adequate service.

18 5. The guarantee authority approved herein is for lawful purposes within TWTA's
19 corporate powers, is compatible with the public interest, with sound financial practices, and with the
20 proper performance by TWTA of service as a public service corporation will not impair TWTA's
21 ability to perform that service.

22 6. Staff's recommendations in Findings of Fact No. 12 are reasonable and should be
23 adopted.

24 ORDER

25 IT IS THEREFORE ORDERED that, pursuant to A.R.S. §§ 40-285, 40-301, and AAC R14-
26 2-804, Time Warner Telecom of Arizona, LLC's application for approval to guarantee the debt of
27 Time Warner Telecom Holdings, Inc. as set forth in the February 3, 2005 application and conditioned
28 upon maintenance of the performance bond as required by the Commission, is hereby granted.

1 IT IS FURTHER ORDERED that Time Warner Telecom of Arizona, LLC is hereby
 2 authorized to grant liens and engage in any transactions and/or execute any documents necessary to
 3 effectuate the authorization as granted herein.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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 8 CHAIRMAN

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 11 COMMISSIONER

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 13 COMMISSIONER

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 16 COMMISSIONER

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 19 COMMISSIONER

20 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
 21 Secretary of the Arizona Corporation Commission, have
 22 hereunto set my hand and caused the official seal of the
 23 Commission to be affixed at the Capitol, in the City of Phoenix,
 24 this 5th day of May, 2005.

25
 26 
 27 BRIAN C. McNEIL
 28 EXECUTIVE SECRETARY

29 DISSENT _____

30 DISSENT _____

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